

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**



J. TYLER McCAULEY  
AUDITOR-CONTROLLER

WENDY L. WATANABE  
CHIEF DEPUTY

KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET, ROOM 525  
LOS ANGELES, CALIFORNIA 90012-2706  
PHONE: (213) 974-8301 FAX: (213) 626-5427

December 11, 2007

TO: Audit Committee

FROM: J. Tyler McCauley *TM*  
Auditor-Controller

SUBJECT: **COUNTY PROCUREMENT RISK ASSESSMENT AND AUDIT PLAN  
(Board Agenda Item No. 46-D.5, August 14, 2007)**

On August 14, 2007, the Board of Supervisors instructed the Auditor-Controller to assess the need to conduct specialized procurement audits of County departments. The Board's request was a result of the audit findings reported on our August 3, 2007, Department of Children and Family Services (DCFS) Procurement Review in which we identified significant deficiencies with DCFS' procurement practices, including violations of County fiscal and purchasing policies, lack of internal controls, etc.

To address the Board's request, our review focused on the 20 County departments whose procurement transactions are not processed by the Auditor-Controller's Shared Services Division. DCFS was also excluded from our assessment since we recently completed an audit of their procurement practices. We evaluated the departments' risks based on specific factors and discussed our evaluation with the Chief Executive Office (CEO), the Internal Services Department (ISD) and management from various County departments.

We propose a six-year plan to review procurement practices of these 20 County departments (see Attachment A). Because the Auditor-Controller's Shared Services Division processes and closely monitors procurement transactions for the other 17 County departments, we consider these departments to have a lower risk of violating procurement/fiscal policies and propose completing a limited-scope assessment of these departments' procurement practices as part of the six-year procurement audit plan.

### **Selection Criteria and Scope of Future Audits**

We developed a list of 18 factors (see Attachment B) to evaluate the risk of procurement issues in County departments. For example, we considered the size of the departments' Fiscal Year (FY) 2006-2007 Services and Supplies expenditures, the extent of the departments' decentralized procurement functions, the number of significant prior procurement issues (e.g., retroactive payments, allegations substantiated by the Office of County Investigations, information obtained from ISD, etc.), the number of material Internal Control Certification Program (ICCP) procurement weaknesses, and the time since the last procurement audit, including the materiality and type of prior findings and recommendations. The ICCP is a self-evaluation questionnaire developed by the Auditor-Controller and used by County departmental managers to evaluate their internal controls in all fiscal areas, thereby reducing the risk of error, fraud and other improper activities.

The procurement audits will include evaluating departments' compliance with County purchasing requirements such as making purchases within the departments' delegated purchasing authority and obtaining the required number of bids from potential vendors, etc. The audits will review procedures and assess internal controls over the purchasing process to ensure an adequate system of checks and balances is in place and continually monitored to ensure compliance at all levels of the organization. We will review departments' warehouses/stockrooms and satellite procurement offices' purchasing practices. In addition, our reviews will include addressing specialized procurement issues specific to each department, such as pharmacy purchases at the Department of Health Services (DHS), Department of Mental Health (DMH) and the Sheriff, gift cards at DMH and Probation, and food vouchers at Community and Senior Services.

On an ongoing basis, we will continue to review departments' reported procurement internal control weaknesses identified on their ICCP and will follow-up with departments who report material procurement weaknesses. Other existing resources, such as the County Fiscal Manual and ISD purchasing policies and procedures, are also available to departments.

Audit reports will be issued to all department heads so they can evaluate their procurement operations for problems noted in the audits.

### **Countywide Training**

ISD has an existing procurement training program that is offered to all procurement staff three to five times a year, as well as additional training when departments request it. In September, October, and November 2007, ISD provided three procurement training classes to DCFS and other County departmental procurement staff, supervisors and managers and plans to provide two additional procurement training classes for all County departments in December 2007. ISD indicated that they will continue to work with County departments to schedule ongoing and annual refresher procurement

training. The CEO has issued a report to your Board, dated November 21, 2007, addressing the Board's request on procurement training Countywide. (Board Agenda Item No. 46D.4, August 14, 2007).

### **Future Procurement Audits and Transaction Monitoring**

Based on our analysis, DHS, Public Works, DMH and the Sheriff's Department have the highest potential risk in their procurement operations and will be included in our FY 2007-08 and FY 2008-09 Audit Plan (See Attachment A). In addition to the four highest risk departments, the Department of Parks and Recreation previously requested an audit of their procurement operations, and we will include them in the FY 2007-08 audit plan.

We propose to complete procurement audits of all County departments within the next six years. Based on our current and projected workload, including the procurement audits, the recent Board order to evaluate controls over payroll and personnel in County departments and additional internal control requirements from the County's external auditors, we believe that completing procurement audits of all departments in six years will require four additional audit staff items. If the Audit Committee approves the proposed audit plan and required staff, we will include the items in our proposed FY 2008-09 budget.

The Auditor-Controller is also developing a program of continuous monitoring of financial transactions including a computer-assisted approach to increase fraud detection through data mining. The program will identify non-compliance with County financial and purchasing policies and practices and monitor high dollar value transactions. The automated electronic monitoring program should be in place by the end of the next Fiscal Year 2008-09. In addition, Phase II of the eCAPS project includes both a procurement and inventory management and tracking system, which should reduce some of the risks in department procurement functions.

We discussed our risk assessment and audit plan with the CEO and ISD. They generally agreed with our procurement risk assessment and audit plan.

Please call Jim Schneiderman at (626) 293-1101 if you have any questions.

JTM:MMO:JLS

### **Attachments**

c: William T Fujioka, Chief Executive Officer  
Sachi Hamai, Executive Officer  
Dave Lambertson, Director, Internal Services Department  
Department Heads  
Department Administrative Deputies  
Public Information Office

## **PROCUREMENT AUDIT PLAN**

### **FY 2007-08 Planned Procurement Audits**

Department of Health Services (LAC+USC, Harbor-UCLA and MLK MACC)  
Department of Mental Health (1) (2)  
Department of Parks and Recreation

### **FY 2008-09 Planned Procurement Audits**

Department of Health Services (Olive View, Rancho, High Desert, DHS Administration, and Office of Managed Care)  
Department of Health Services Pharmacy (All Facilities)  
Department of Public Works  
Sheriff (1)

### **FY 2009-10 Planned Procurement Audits**

Probation Department (2)  
Executive Office of the Board of Supervisors  
Community and Senior Services (2)  
Department of Public Health

### **FY 2010-11 Planned Procurement Audits**

Department of Public Social Services  
Child Support Services Department  
Registrar-Recorder/County Clerk  
Fire Department

### **FY 2011-12 Planned Procurement Audits**

Internal Services Department  
Museum of Natural History  
Public Library  
Assessor

### **FY 2012-13 Planned Procurement Audits**

Treasurer and Tax Collector  
Department of Beaches and Harbors  
District Attorney  
Auditor-Controller Shared Services Division (17 County Departments)

(1) - In addition to our comprehensive procurement audit, we will also evaluate the procurement process and controls over the Department's pharmacy operations.

(2) - In addition to our comprehensive procurement audit, we will also evaluate controls that the Department maintains over giftcards/food vouchers.

**RISK ASSESSMENT CRITERIA**

High Risk Areas			
No.	Criteria	Explanation of Criteria	Source
1	FY 2006-07 Services and Supplies Expense Total	Department's FY 2006-07 Services and Supplies budget.	eCAPS Expenditure Summary Reports
2	Substantiated Procurement Investigations	Major OCI substantiated procurement allegations made during FY 2006-07.	OCI Substantiated Allegations Report
3	Time Since Last Procurement Review	The time since the last procurement review or follow-up of a prior audit conducted within the last 10 years.	A-C Audit Reports
4	Number of Procurement Review Major Findings	The number of major procurement findings reported within the last 10 years.	A-C Audit Reports
5	FY 2006-07 Annual Inventory Balance	Department's FY 2006-07 annual ending inventory balance.	A-C Services and Supply Inventory Report
6	Identified Number of Retroactive Payment Issues	Department's reported number of retroactive payment issues.	CEO Retroactive Contracts Report
7	Perpetual Inventory System	Whether or not the department maintains a perpetual inventory system.	Department Questionnaire
8	Departments Issue Giftcards and/or other items issued as incentive or aide	Whether or not departments issue giftcards and/or other similar items issued that are easily convertible to cash and can be used for personal purposes.	Department Questionnaire
9	Number of eCAPS Procurement Interfaces	The number of departmental procurement systems that interface with eCAPS.	Department Questionnaire

Medium Risk Areas			
No.	Criteria	Explanation of Criteria	Source
10	No. of ICCP Material Procurement Weaknesses	The number of material procurement weaknesses reported in the department's most recent ICCP.	Department ICCPs
11	Time since last Procurement Training	The last time each department attended ISD's Procurement Training 101.	ISD Procurement Training 101 - Staff Attendance Statistic Data
12	Biennial Capital Assets Inventory Certification Completed	Whether or not each department completed their biennial Capital Assets Inventory Certification.	A-C Equipment Inventory Schedule 2005 & 2006
13	Annual LAC-CAL Inventory Certification Completed	Whether or not the department completed their annual LAC-CAL Inventory Certification (if they lease LAC-CAL equipment).	A-C FY 2005-06 LAC-CAL Inventory Listing Mailed to Various Departments
14	Number of Warehouses/Stockrooms	The number of warehouses/stockrooms that each department maintains.	Department Questionnaire
15	Centralized or Decentralized Procurement Function	Each department's procurement organizational structure.	Department Questionnaire
16	Number of Satellite Procurement Offices	The number of satellite procurement offices each department maintains.	Department Questionnaire

Low Risk Areas			
No.	Criteria	Explanation of Criteria	Source
17	Delegated Authority of \$15,000	Whether or not each department is certified by ISD to have an increased Delegated Authority of \$15,000.	ISD's Listing of Departments Certified for Increased Delegated Authority to \$15,000 for Non-Agreement Purchases
18	Prepayment of Vendors	Whether or not each department prepaays vendors.	Department Questionnaire